

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

Docket No. 03-E-0106

In the Matter of the Liquidation of
The Home Insurance Company

Docket No. 03-E-0112

In the Matter of the Liquidation of
US International Reinsurance Company

LIQUIDATOR'S SEVENTH REPORT

I, Roger A. Sevigny, Insurance Commissioner ("Commissioner"), as Liquidator ("Liquidator") of The Home Insurance Company ("The Home") and US International Reinsurance Company ("USI Re") (collectively, the "Companies"), hereby submit this seventh report on the liquidations of the Companies, as of March 15, 2004, in accordance with RSA 402-C:25.

1. Reinsurance commutations. The Court entered an order approving the commutation agreement with syndicates at Lloyds, London, on February 18, 2004. The commutation was concluded and the funds were received by the Liquidator on March 1, 2004.

2. AFIA compromise. As discussed in the Liquidator's Sixth Report, the Joint Provisional Liquidators of The Home's UK Branch have reached an agreement, endorsed by the Liquidator, with members of the Informal Creditors' Committee established in connection with the English proceedings for the Home UK Branch. The agreement concerns complex issues arising from the Home UK Branch's participation as a member of the American Foreign Insurance Association ("AFIA"). The Liquidator's

motion for approval of this agreement was served on February 11, 2004. The Liquidator has agreed to extend the time for two companies to respond to the motion to March 19, 2004. The agreement contemplates a UK scheme of arrangement with respect to AFIA Cedents, and a draft scheme of arrangement was circulated to members of the UK Informal Creditors' Committee on March 1, 2004.

3. Coordination activities.

a. The Liquidator attended a meeting of the UK Informal Creditors' Committee in London on February 23, 2004 to discuss issues concerning the global liquidation of The Home. The Liquidator and the Joint Provisional Liquidators met with the UK insurance regulator, the Financial Services Authority ("FSA"), on February 24, 2004. At that meeting, the FSA expressed its preliminary "non-objection" to the arrangement contemplated by the AFIA agreement. Representatives of the Liquidator attended a meeting of the UK Informal Creditors' Committee in London on March 11, 2004 to discuss the draft scheme of arrangement.

b. The Liquidator attended a meeting of the National Conference of Insurance Guaranty Funds ("NCIGF") in New York on February 19, 2004, and his representatives have met with guaranty fund representatives to discuss issues concerning coordination with the insurance guaranty funds.

4. Financial reports. The unaudited December 31, 2003 financial statements for The Home and USI Re are attached as Exhibits A and B to this report. The Home statements reflect \$470,020,122 in assets under the Liquidator's direct control, and \$165,186,990 in collections and other receipts and \$41,230,527 in operating disbursements of the liquidation since June 11, 2003. The USI Re statements reflect

\$991,078 in assets under the Liquidator's direct control, and \$419,956 in collections and other receipts and \$14,736 in operating disbursements of the liquidation since June 11, 2003. The Liquidator expects that 2003 annual financial statements for The Home and USI Re audited by Ernst & Young will be completed in May 2004. The actuarial firm of Milliman & Robertson is in the process of reviewing The Home's loss and expense reserves as of December 31, 2003.

5. Operations. On March 11, 2004, the Liquidator filed a motion for approval of an Information Technology Services Agreement with Zurich American Insurance Company ("Zurich"). That agreement is to replace the agreement between Risk Enterprise Management ("REM") and Zurich through which the Companies had been provided with certain information technology services. Some final work may be needed from REM under the transition services agreement approved by the Court on August 6, 2003, and the term of the agreement has been extended for an additional 30 day period to April 17, 2004.

6. Potential shell transaction. As noted in the Liquidator's Fourth Report, the Liquidator continues to pursue discussions with interested persons concerning the sale of The Home and USI Re corporate "shells" (i.e., the Companies' corporate charters and licenses). At this point, the Liquidator believes it is appropriate to prepare the shells for sale by creating liquidating trusts for The Home and USI Re and transferring the assets and liabilities of each company into its respective trust. A motion seeking approval of proposed liquidating trusts is expected to be filed within sixty days.

7. Other matters. The Liquidator is interviewing professional investment managers and expects to make a decision concerning hiring an investment manager

within the next sixty days. The Liquidator has also engaged two consultants to review the potential compensation program for the liquidations. The Liquidator expects to file a motion for approval of a compensation plan covering all employees within the next thirty days.

Respectfully submitted,

 /s/

Roger A. Sevigny, Liquidator

March 18, 2004

Exhibit A

The Home Insurance Company In Liquidation
(Modified Cash Basis)
(Unaudited)

Statement of Net Assets
As of Period Ending

	<u>December 31, 2003</u>	<u>September 30, 2003</u>
Assets		
Unrestricted cash and invested assets:		
Cash and cash equivalents	\$46,997,027	\$100,484,658
Marketable securities, liquid, at cost (Note 2)	402,091,729	318,829,773
Interest income receivable	1,390,004	353,697
Common stock, non liquid, at equity (Note 1)	<u>17,232,275</u>	<u>16,782,023</u>
Total unrestricted cash and invested assets	467,711,035	436,450,151
Restricted cash and cash equivalents (Note 5)	<u>825,673</u>	<u>-</u>
Total restricted cash and cash equivalents	825,673	-
Receivable from US International Reinsurance Company in Liquidation (Note 4)	991,078	-
Fixed assets (net of accumulated depreciation of \$61,054)	<u>492,336</u>	<u>362,621</u>
Total assets, excluding certain amounts	470,020,122	436,812,772
Liabilities		
Incurred But Unpaid Administrative Expenses and Loss Adjustment Expenses (Note 3)	748,612	86,480
Net assets, excluding certain amounts	<u>\$469,271,510</u>	<u>\$436,726,292</u>

See accompanying notes.

The Home Insurance Company in Liquidation
(Modified Cash Basis)
(Unaudited)

**Statements of Receipts and Disbursements, and
Changes in Cash and Marketable Securities**

	June 11, 2003 (Inception of Receivership) to December 31, 2003	June 11, 2003 (Inception of Receivership) to September 30, 2003
Cash receipts:		
Reinsurance collections	\$126,021,113	\$115,632,223
Salvage, subrogation and other claim recoveries	7,049,340	4,016,127
Net investment income	3,314,684	1,946,155
Agents' balances	1,902,779	1,745,896
Funds Held	25,842,488	16,815
Miscellaneous income	35,272	23,866
All other	1,021,314	364,791
Total cash receipts	165,186,990	123,745,872
Cash operating disbursements:		
Losses and loss expenses paid (Note 1)	14,102,239	13,227,987
Asset Transfer Agreement cost (Note 4)	7,500,000	7,500,000
Consultant and outside service fees	7,289,513	4,746,443
Human resources costs	5,973,159	2,893,952
General office and rent expense	2,241,936	1,069,749
Legal fees	1,211,546	869,763
Computers and equipment cost	1,185,065	780,795
Third party administrator payments	620,020	533,883
Administration costs	643,570	459,859
Temporary services	391,409	276,883
All other	72,070	105,289
Total cash operating disbursements	41,230,527	32,464,604
Excess of receipts over operating disbursements	123,956,463	91,281,268
Beginning cash and marketable securities, at cost (Note 6)	325,957,966	325,957,966
Ending cash and marketable securities, at cost	\$449,914,429	\$417,239,234

See accompanying notes.

The Home Insurance Company In Liquidation
CASH AND INVESTED ASSETS

	December 31, 2003	September 30, 2003	June 10, 2003	March 5, 2003
Cash and invested assets:				
Cash and cash equivalents	\$47,822,700	\$100,484,658	\$38,369,161	(\$953,085)
Marketable securities, liquid, at cost	402,091,729	318,829,773	289,694,957	4,041,613
Interest income receivable	1,390,004	353,697	43,750	38,845
Preferred stock, non liquid, at equity	0	0	0	10,777,739
Common stock, non liquid, at equity	17,232,275	16,782,023	15,781,436	15,925,398
Total cash and invested assets	<u>\$468,536,708</u>	<u>\$436,450,151</u>	<u>\$343,889,304</u>	<u>\$29,830,510</u>

The Home Insurance Company in Liquidation ("Home")
(Modified Cash Basis)
(Unaudited)

Notes to Financial Statements

December 31, 2003

1) Basis of Accounting

These financial statements are prepared using the modified cash basis of accounting which differs from accounting principles generally accepted in the United States. Only those assets that are within the possession of the Liquidator and other known amounts for which ultimate realization is expected to occur, primarily investments and cash, and certain receivables, are recorded. Liabilities that have been acknowledged by the Liquidator are prioritized into creditor classes in accordance with the New Hampshire statute establishing creditor classes in insurer insolvencies, RSA 402-C:44. Only incurred but unpaid Class I (Administration Costs) liabilities, which are in a creditor class superior to all other classes, are presented in these financial statements.

These financial statements do not record the amounts of certain assets such as outstanding receivables, reinsurance recoverables, securities on deposit with various states, funds held and claims against others, and certain liabilities, including insurance claims, as such amounts have not been settled and agreed to with third parties.

The amount shown for losses and loss expenses paid primarily represent (1) prepayments of worker's compensation benefits pursuant to agreements with state guaranty funds to avoid disruption in payment during the transfer of related claims files to the guaranty funds, (2) loss expenses for services rendered during the March 5, 2003 through June 10, 2003 rehabilitation period and accorded administrative expense priority by the rehabilitation order and liquidation order, and (3) checks issued for loss and loss expenses prior to June 11, 2003, which cleared after entry of the Home Liquidation Order.

Common stocks, at equity, represent investments in a subsidiary and a privately held corporation which are not liquid since these are not publicly traded.

This statement does not include any assets of Home's branches outside of the United States.

The Home Insurance Company in Liquidation ("Home")
(Modified Cash Basis)
(Unaudited)

Notes to Financial Statements (continued)

2) Marketable Securities

The carrying values and estimated fair values of marketable securities by major category are summarized as follows:

Unrestricted Marketable Securities	December 31, 2003			Fair Value
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	
Debt Securities:				
U.S. Treasury bills	\$ 225,610,831	320,078	-	\$ 225,930,909
U.S. Treasury notes	99,578,125	953,125	-	100,531,250
Government agencies	74,953,125	257,625	-	75,210,750
Corporate debt	321,942	-	-	321,942
Debt securities - total	400,464,023	1,530,828	-	401,994,851
Common Stock	1,627,706	18,031,704	(948,983)	18,710,427
Total	<u>\$ 402,091,729</u>	<u>19,562,532</u>	<u>(948,983)</u>	<u>\$ 420,705,278</u>

The carrying value and fair values of marketable debt securities by contractual maturity are as follows:

Unrestricted Marketable Securities	Carrying Value	Fair Value
December 31, 2003		
One year or less	\$ 225,776,217	\$ 226,096,295
Over one year through five years	174,687,806	175,898,556
Over five years	-	-
	<u>\$ 400,464,023</u>	<u>\$ 401,994,851</u>

Common stocks included in marketable securities are publicly traded issues that are liquid.

The Home Insurance Company in Liquidation ("Home")
(Modified Cash Basis)
(Unaudited)

Notes to Financial Statements (continued)

3) Incurred But Unpaid Administrative Expenses and Loss Adjustment Expenses

Accrued administrative expenses and loss adjustment expenses incurred in the normal course of Home's liquidation as of December 31, 2003 are as follows:

Loss adjustment expenses paid – legal fees	\$ 134,585
Consultant and outside service fees	396,465
Legal fees	115,686
Computers and equipment costs	41,590
General office and rent expense	37,641
Human resources costs	16,391
Temporary services	5,067
Administration costs	<u>1,187</u>
	<u>\$748,612</u>

4) Asset Transfer Agreement

In connection with an Asset Transfer Agreement approved by The State of New Hampshire, Merrimack County Superior Court (the Court), the Liquidator paid \$7,500,000 for the right, title and interest in a number of technology assets. Such costs are not reflected as fixed assets on the Balance Sheet. Included in the technology assets was an amount for an assumed reinsurance system; \$2,898,000 of this cost was allocated to Home's subsidiary, US International Reinsurance Company in Liquidation (USI Re). The amount receivable from USI Re is reflected on the balance sheet net of an allowance for doubtful collectability of \$1,906,922, since \$991,078 represents USI Re's total cash and invested assets at December 31, 2003.

5) Restricted Funds Applied to Reinsurance Recoveries

The Liquidator has drawn down on letters of credit (LOC) upon receiving notices of cancellation or notices of non-renewal from the issuing bank. Such LOC draw downs relate to insurance losses not yet proven and/or settled and are recognized as restricted cash receipts. Restricted funds will be recognized as unrestricted reinsurance recoveries when such balances are proven and/or settled between the beneficial owner and the Liquidator. Since the inception of the liquidation, restricted funds applied to reinsurance recoveries total \$825,673.

The Home Insurance Company in Liquidation ("Home")
(Modified Cash Basis)
(Unaudited)

Notes to Financial Statements (continued)

6) Restatement of Prior Financial Statements

The balance of beginning cash and marketable securities, at cost, presented at September 30, 2003, has been restated to exclude collateralized mortgage obligations held by the Liquidator due to uncertainties regarding marketability of these securities.

Exhibit B

US International Reinsurance Company In Liquidation
(Modified Cash Basis)
(Unaudited)

Statement of Net Assets (Liabilities)
As of Period Ending

	December 31, 2003	September 30, 2003
Assets		
Cash and invested assets:		
Cash and cash equivalents	\$ 991,078	\$ 931,886
Total cash and invested assets	991,078	931,886
Liabilities		
Payable to The Home Insurance Company in Liquidation - administrative expenses payable (Note 2)	2,898,000	-
Net assets (liabilities), excluding certain amounts	<u>\$ (1,906,922)</u>	<u>\$ 931,886</u>

See accompanying notes.

US International Reinsurance Company In Liquidation
(Modified Cash Basis)
(Unaudited)

Statements of Receipts and Disbursements, and
Changes in Cash and Marketable Securities

	June 13, 2003 (Inception of Receivership) to December 31, 2003	June 13, 2003 (inception of Receivership) to September 30, 2003
Cash receipts:		
Reinsurance collections	\$288,338	\$281,758
Net investment income	130,438	72,968
All other	1,180	728
Total cash receipts	<u>419,956</u>	<u>355,454</u>
Cash operating disbursements:		
Consultant and outside service fees	14,736	9,426
Excess of receipts over operating disbursements	<u>405,220</u>	<u>346,028</u>
Beginning cash and cash equivalents, at cost	585,858	585,858
Ending cash and cash equivalents, at cost	<u><u>\$991,078</u></u>	<u><u>\$931,886</u></u>

See accompanying notes.

US International Reinsurance Company in Liquidation ("USI Re")
(Modified Cash Basis)
(Unaudited)

Notes to Financial Statements

December 31, 2003

1) Basis of Accounting

These financial statements are prepared using the modified cash basis of accounting which differs from accounting principles generally accepted in the United States. Only those assets that are within the possession of the Liquidator and other known amounts for which ultimate realization is expected to occur, primarily investments and cash, and certain receivables, are recorded. Liabilities that have been acknowledged by the Liquidator are prioritized into creditor classes in accordance with the New Hampshire statute establishing creditor classes in insurer insolvencies, RSA 402-C:44. Only incurred but unpaid Class I (Administration Costs) liabilities, which are in a creditor class superior to all other classes, are presented in these financial statements.

These financial statements do not record the amounts of certain assets such as outstanding receivables, reinsurance recoverables, securities on deposit with various states, funds held and claims against others, and certain liabilities, including insurance claims, as such amounts have not been settled and agreed to with third parties.

2) Asset Transfer Agreement

In connection with an Asset Transfer Agreement approved by The State of New Hampshire, Merrimack County Superior Court (the Court), The Home Insurance Company in Liquidation, the Liquidator's parent, paid \$7,500,000 for the right, title and interest in a number of technology assets. Included in the technology assets was an amount for an assumed reinsurance system, and the Liquidator's allocated share of this cost was \$2,898,000 and is reflected as a liability.

STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

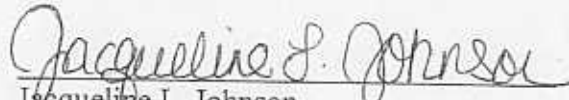
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US International Reinsurance Company
Docket No. 03-E-0112

CERTIFICATE OF SERVICE

I, Jacqueline L. Johnson, do hereby certify that on March 19, 2004, I served a true copy of the foregoing upon the attached Service List, by first class mail, postage prepaid.

Dated: March 19, 2004


Jacqueline L. Johnson

